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Sir James Steuart on "foreign trade" and policy

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Abstract - In the present paper I discuss Sir James Steuart ideas, arguments and theories on the issue of international trade and policy measures in comparison with relevant ones developed by other eminent authors of the 18th century. Also it is shown that by separating real and monetary explanations of economic phenomena in international trade, Steuart anticipated many modern ideas and policy measures.

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1. Introduction

A great part of 20th century international trade was conducted under a semi-mercantilist atmosphere (Robinson 1966; Johnson 1974) at least until the establishment and extension of the various GATT agreements. Sir James Steuart in his *An Inquiry into the Principles of Political Oeconomy* had developed an economic policy along such lines in 1767. Thus, his positive and normative approaches to the subject deserve special analysis.

His interest in international trade concentrated primarily on the following issues which comprise the relevant sections of the present paper: (2) the beginning and evolution of international trade among nations with different levels of economic growth; (3) the essential elements and effects of international trade; (4) the monetary complications of international trade; and (5) the appropriate techniques, or economic policies, which must be adopted by a trading nation in order to draw every possible advantage from international

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trade. In the last section (6), various ideas that characterize Steuart's international trade policy are discussed.

Steuart, in his analysis of international trade, was undoubtedly influenced by those relevant ideas current throughout Great Britain and the Continent (mainly in France) during the mid-18th century; nevertheless, he did make some significantly unique contributions to the economic theories in question. Thus, in the following discussion, Steuart's relevant ideas and arguments regarding international economics are compared with those developed during his era by such eminent thinkers as Montesquieu, Hume, Cantillon, Harris, the Physiocrats, the early Smith (1763), and others.

2. The beginning and evolution of international trade

Steuart was deeply concerned with the causes that regulated the evolution of foreign trade. His main interest was concentrated on "the general principles upon which a system of foreign trade may be established, and preserved as long as possible; and of the methods by which it may be again recovered, when, from the natural advantages and superior ability of administration in rival nations, (not from vices at home), a people may have lost for a time every advantage they used to draw from their foreign commerce" (1.232)¹. He emphasized (1.195-6) the "strategic of recovery" of foreign trade, as he had related the stages of economic growth with the presence or absence of its function; an idea in accordance with his general thesis for the "growth-decay" process in every situation, natural and/or human².

He divided trade into "infant, foreign, and inland" (1.261)³. He accepted the role of the statesman's intervention as the most effective instrument for the transition of society from the first to the second stage, and for the preservation of this stage under specific economic conditions (see also Urquhart 1996).

A foreign trade, according to Steuart, begins when "one nation finds another necessarily depending upon her for particular branches of traffic" (1.238).

1. The references cited as volume and page (i.e. 1. 217) are to Skinner's edition of Steuart's *Principles* (1767).

2. Steuart strengthens his growth-decay thesis by considering history (1.195; see also Low 1952: 323-4; Skinner 1981: 32-3). David Hume had already developed such a thesis in his letter to Lord Kames (4th March, 1758, ed. 1932: 272) where he mentioned: "The growth of all bodies, artificial as well as natural, is stopped by internal causes, great cities, great commerce, all of them receive a check not from accidental events, but necessary principles". For the growth-decay thesis as developed by various scholars in the mid-18th century, see Kleer (1996).

3. Skinner noticed (1981, p. 32; 1985: 13) that these "three broad classifications, ... are to be found in Mirabeau". Stark (1968: 265) characterized as pessimistic this trade classification of Steuart. For an analytical presentation of the trade stages classification of Steuart, see Skinner (1993), Yang (1994: 133-140).

This trade may be categorized as "active" and "passive" (1.162)⁴. An active foreign trade is defined as the exportable efficiency of a country, while a passive foreign trade indicates a country's preference for imports (see also Viner, 1937: 10). The case of only passive trade is considered to be a temporary situation, while that of being active is viewed as a long-term condition, because as he argued, "there is no nation anyways conversant in trade, which does not exchange some commodities against those of the nations with whom it trades" (1772: 62).

The case of active trade, as a more permanent situation, deserves more special analysis. Steuart was the first *economist qua economist* to deeply investigate the various causes and effects of foreign trade on its continuation and on the economic growth of trading nations⁵. He began from the behaviour of trading nations and, through a presentation of the various advantageous and disadvantageous effects of foreign trade, proceeded to explain why too often such a trade after reaching its maturity would turn to its decay. He regarded that the behaviour of every trading nation is like that of competitive individuals and firms (Skinner 1985: 13). He noticed that competition "conveys the idea of emulation between two parties striving to compass the same end" (1.247). This behaviour could be distinguished as a competition to retain "a superiority already got", or to acquire "a superiority" (1.248). However, before a competitive process takes action, there must be a "reciprocal demand" (1.164) and dependence between the two trading parties, individuals and/or nations, viz:

The very existence of foreign trade, implies a separate interest between those nations who are found on the opposite sides of the mercantile contract, namely the buyers and the sellers, as both endeavour to make the best bargain possible for themselves. These transactions imply a mutual dependence upon one another, which may either be necessary or contingent. It is necessary, when one of the nations cannot subsist without the assistance of the other... or contingent, when the wants of a particular nation cannot be supplied by their own inhabitants, from a want of skill and dexterity, only (1.237-8)⁶.

The dependence between nations, as also between individuals, according to Steuart (1. 307-8, 312-3), is advantageous for both trading parties only when their transactions take place on equal terms. In cases where "dependence" between two parties produces a subordination of one to another, he thought that trade must be stopped. Such a case occurs when the foreign trade is based on the necessity of one country for the products of the other, or when

4. Steuart, as Johnson (1937: 225) noticed, followed Postlethwayt regarding this distinction of foreign trade.

5. See also Skinner (1963). Perelman (1983: 469) noticed that "In fact, Steuart was the most important economist of his day".

6. The argument that foreign trade is established because the mutual interest of trading nations usually increases their economic dependence had already been developed by Montesquieu (1734-48, vol.I.: 324; vol. II.: 45) and Harris (1757: 23).

it is based on some contingent (but temporary) situation that force a country to subordinate itself to another. For Steuart, the first of these two causes of dependence must be restricted to a minimum, while the second cause must be "deliberately eliminated" (Johnson 1937: 228; Sen 1957: 63).

Steuart regarded that foreign trade begins when there exist various surplus products between the trading nations (1.120, 233), as "it is a surplus only of industry which can be exported" (1.235; see also Sen 1957: 61-2). It is obvious that he was an advocate of the "vent of surplus" principle as an explanation for the initiation of foreign trade⁷. Moreover he argued that the continuation of foreign trade depends on the different consumption preferences of individuals in various countries (1.156), and on their different productive capabilities (1.202).

He stressed (1.154-5, 168) that the increase of foreign trade and its diffusion to various countries produced a feedback effect on the economic development of those nations through the "aspiration effect" process (see also Eagly 1961)⁸. By the importation of foreign luxury goods (1.43-4, 163, 166-7) and through the imitation of luxury consumption (1.243), individuals, in order to raise their income and their living standard, would increase their work effort (1.67, 156-7)⁹. This mechanism – which was also recognized by North (1691: 239) and Hume ("Of Commerce", ed. 1970: 14; "Of Refinement in the Arts", ed. 1970: 31) – for Steuart (1. 43, 46, 60-1, 67-9) is primarily a function for the advancement of economic growth¹⁰. As he argued:

if a spirit of industry has brought the country to a certain degree of population this spirit will not be stopped by the wants of food; it will be brought from foreign countries, and this new demand, by diminishing among them the quantity usually produced for their own subsistence, will prompt the industrious to improve their lands, in order to supply the new

7. Such a principle for the beginning of trade can be found quite early in the literature. We find it in the writings of Aristotle (*Politics*, 1257a, 9, 4-5), prior to Steuart in North (1691: 2-3) and, during Steuart's time, in Montesquieu (1734-48, vol. I.: 338), Hume ("Of the Jealousy of Trade", ed. 1970: 79), Harris (1757: 17), and Young (1774: 31).

8. Such a process is described fairly well by Steuart who noticed:

"We now suppose the arrival of traders, all in one interest, with instruments of luxury and refinement, at a port in a country of great simplicity of manners, abundantly provided by nature with great advantages for commerce, and peopled by a nation capable of adopting a taste for superfluities... What are the first consequences of this revolution? Is it not evident, that, in order to supply an equivalent for this new want, more hands must be set to work than formerly? And it is evident also, that this augmentation of industry will not essentially increase numbers; as was supposed to be the effect of it" (1.66-7).

Steuart's concept of the role of "aspiration effect" in economic growth has been analysed by Akhtar (1978) through the use of a formal model.

9. Such an argument was analysed later on by Malthus who stated that: "One of the greatest benefits which foreign commerce confers, and the reason why it has always appeared an almost necessary ingredient in the progress of wealth, is, its tendency to inspire new wants, to form new tastes, and to furnish fresh motives for industry" (1836: 403).

10. Doujon (1994: 498) and Brewer (1997: 17-8) noticed the influence of Mandeville on Steuart in regard to the various effects of consumption of luxury goods.

demand without any hurt to themselves. Thus, trade has an evident tendency toward the improvement of the world in general, by rendering the inhabitants of one country industrious, in order to supply the wants of another, without any prejudice to themselves (1.119).

Thus, for Steuart, the worldwide benefits of international trade are not derived from the division of labour, as Smith and the classicists stressed, but are the result of an increase of work effort and the extensive production of new luxurious goods¹¹.

Steuart argued (1.120) that trade between nations that have different economic productive conditions and consumption preferences would flourish and prove profitable for the underdeveloped nation (see also Brewer 1995: 626-7). On the other hand, trade between nations with similar economic conditions probably would stagnate, as there would exist no cause for exchanging their surpluses. He (1.120) was well aware that the advancement of foreign trade, and more specifically, the increase of exports, could produce an increase in production and employment in the exporter country; here he touched upon the Keynesian multiplier effects in foreign trade¹².

3. The essential elements and effects of foreign trade

As previously mentioned, Steuart realized that apart from the existence of different surplus goods among the trading nations, there exists another precondition for the establishment of foreign trade. This precondition is related to the rate of price of traded goods and could be explained by the principle of absolute advantage. He emphasized (1.247) this principle as a cause of the beginning of foreign trade¹³. Then, he investigated (1.214, 247, 255) three

11. Hume, prior to Smith, had attributed the benefits from foreign trade of "rich and poor" nations to the specialization of production that resulted from the existence of different surpluses. In a letter to J.Oswald (1st November, 1750), he wrote: "Your enumeration of the advantages of rich countries above poor, in point of trade, is very just and curious; but I cannot agree with you that barring ill policy or accidents, the former might proceed gaining upon the latter for ever. The growth of every thing, both in arts and nature, at last checks itself. The rich country would acquire and retain all the manufactures, that require great stock or great skill; but the poor country would gain from it all the simpler and more laborious" (ed. 1932: 143).

12. For Steuart, the degree of unemployment is considered to be the final target of economic policy (see Karayiannis 1994); a concern as well of the new-mercantilist policy of the early phases of the 20th century (Robinson, 1947: 229-30).

13. Petty (see Roncaglia 1985: 37) and Law (1705: 23), had already recognized and stressed the principle of absolute advantage. In the time of Steuart, in addition to Montesquieu, some eminent scholars had analysed such a principle as a justification and explanation of foreign trade. See, for example, Hume ("Of the Jealousy of Trade", ed. 1970: 79-80) and Quesnay (*Tableau Économique*, ed. 1972: 14, ft.116). Such a principle, also recognized by the early Smith (1763: 204-5), was primarily analysed later on in his *Wealth of Nations*. For an extensive analysis of Smith's relevant principle, see Staley (1973: 440); Bloomfield (1975: 460-3).

main sources of the absolute advantage in foreign trade: (i) natural endowments¹⁴; (ii) labour's productivity which is derived by the "superior dexterity of the labourers", by special commercial knowledge and "the invention and introduction of machines"¹⁵; and (iii) advanced economic institutions (e.g. the use of paper money) and efficient economic policy. He regarded that the majority of these advantages, particularly the economic and institutional, could never be held *ad infinitum*. On the contrary, he stressed that it might be a transition "of trade from one nation to another... [which].... never can be sudden or easy" (1.204; brackets added).

After demonstrating the causes of the beginning and evolution of foreign trade, he analysed the meaning and effects of a favourable trade in real terms, viz:

When this [i.e. the active trade] comes to be the case, we immediately find two trading nations in stead of one; the balance of which trade will always be in favour of the most industrious and frugal" nation (1.166, brackets added; see also 2.362). And I shall shew, how a balance may be extremely favourable without augmenting the mass of the precious metals; to wit, by providing subsistence for an additional number of inhabitants; by increasing the quantity of shipping, which is an article of wealth; by constituting all other nations debtors to it; by the importation of many durable commodities, which may be considered also as articles of wealth (2.365).

Distinguished historians of economics have disagreed as to who was the actual progenitor of the "favourable balance of trade" concept. Viner (1937: 10) regarded that Steuart was the first to use such a term, while Fetter argued (1935: 622) that "the expression balance of trade appeared in print for the first time in 1623, in a book written by Edward Misselden". Notwithstanding, by examining the literature, it can be determined that the meaning, at least, of this term was in relatively common use during the 17th century. For example, S. Fortrey (1673) explicitly described the meaning and the effects of a positive balance of trade. As he wrote: when "our exportations of commodities would exceed our importations, a very great and signal advantage would accrue... [which] is the profit we should then make of our returning money" (1673: 29, brackets added). Montesquieu, as well, clearly explains the existence and the effects of a negative balance of trade. He noticed (1734-48, vol. I: 338) that a "country that constantly exports fewer manufactures, or commodities, than it receives, will soon find the balance sinking; it will receive less and less, until falling into extreme poverty, it will receive nothing at all".

14. Steuart (1.238; see also Skinner 1999: 145), while attributing the origin of this idea to Montesquieu (1734-48, vol. I: 328-331), enumerated the following sources of such an advantage: "situation, mines, rivers, sea-ports, fishing, timber, and certain productions proper to the soil".

15. Angell (1925: 30) comments that Steuart also "has some faint idea of the principle of comparative advantage, basing it primarily on the industriousness and sobriety of the population".

However, Steuart extends rather more scientifically the analysis of the causes and effects of the famous notion of the favourable balance of trade (Doujon 1994: 512-3). Also, in contrast to the old mercantilists who considered the surplus of foreign trade as consisting in precious metals, he stressed its content in real terms measured mainly by the net labour value added (1.291, 294; see also Johnson 1937: 314; Sen 1957: 76). He presented his idea for the favourable balance of trade, in real terms, with the following words:

In all trade, two things are to be considered in the commodity sold. The first is the matter; the second is the labour employed to render this matter useful. The matter exported from a country, is what the country loses; the price of the labour exported, is what it gains. If the value of the matter imported be greater than the value of what is exported, the country gains. If a greater value of labour be imported, than exported, the country loses. Why? Because in the first case, strangers must have paid, *in matter*, the surplus of labour exported; and in the second case, because the country must have paid to strangers, *in matter*, the surplus of labour imported. It is therefore a general maxim, to discourage the importation of work; and to encourage the exportation of it (1.291; emphasis in the original). Therefore, the most profitable branches of exportation are those of work, the less profitable those of pure natural produce (1.295; see also 1772: 66).

Such a suggestion on behalf of the exportation of manufacture and the importation of agricultural goods was not a new idea during the mid-18th century¹⁶. Except for Quesnay and the Physiocrats who claimed the opposite¹⁷, other thinkers such as Montesquieu (1734-48, vol. I: 338), Richardson (1744: 158), Cantillon (1755: 231, 233, 235) and Smith (1763: 247) shared a view similar to Steuart. Also, such an idea may be found in the writings of Harris (who seems to be very influential on Steuart regarding specific economic subjects), viz:

That trade is most beneficial, which exports those commodities that are least wanted at home, and upon which most labour hath been bestowed; and which brings in return the reverse sort; that in simple products, either necessary for immediate consumption, in the form they are imported; or as materials to be wrought into commodities, wanted either for

16. The proponent of such a doctrine in the 19th century was F. List who claimed that "nations are richer and more powerful the more they export manufactured goods, and import the means of subsistence and raw materials" (1841-44: 218). As Sen mentions (1957: 77, ft. 74), List was familiar with Steuart's work. For an excellent analysis of List's protectionist arguments and policy suggestions, see Schmidt (1999: 29-54).

17. From Meek's *Economics of Physiocracy*, the 1963 edition, we may quote some rather interesting passages regarding the relevant arguments of Quesnay and the Physiocrats. It is stated that: "a nation... gains much more from the sale of a million livres worth of manufactured commodities, because in the case of the latter it gains only the value of the artisan's labour, whereas in the case of the former it gains the value of the labour of cultivation and also the value of the materials produced by the land" (ed. 1963: 74). Also: "In mutual trade, the nations which sell the most necessary or most useful commodities have an advantage over those which sell luxury goods... (thus)... the advantage always lies with the nation which sells the most useful and necessary commodities" (*Ibid.*: 78-9).

home use or exportation. In few words, that trade is best, which tends more to promote industry at home, by finding employment for most hands; and which furnishes the nation with such foreign commodities, as are either useful and necessary for our defense, or more comfortable subsistence. And that trade is the worst, that exports the least of the product of labour; that furnishes materials for manufacturing in other countries (1757: 24).

However, Steuart may be considered as the author who extended the above argument in a scientific context for describing one of the main targets of economic policy in relation to foreign trade. Moreover, it seems that his most important contribution concentrates upon his consistency in developing a favourable balance of trade argument in accordance with his real cost theory of value. He held that the most significant factor determining the value of goods, is the labour cost (the other, less important, is the rate of demand; see Karayiannis 1991). Thus, he maintained that only when a country imports goods with lower labour cost than it exports, could it be in a position to gain a favourable balance of trade. Such a balance would be represented by the net imports of raw materials. Steuart also (1.31, 41, 48, 168) suggested policies for the exportation of manufactured goods and the importation of agricultural products – as did the mercantilists (see Schmoller 1884: 58) – for two main reasons: firstly, since manufactured goods are more labour-intensive than agricultural products, the country would gain a favourable balance of trade; and, secondly, because Steuart had closely related the amount of population with the volume of agricultural production disposable to a country (see also Gislain 1999).

Steuart, generally speaking, was an advocate of what is characterized – using the words of J. Robinson (1947) – “beggar-my neighbour” policy of foreign trade. He was well aware that one of the most important benefits that a country could draw from her favourable balance of trade was the increase of employment and, by extension, the increase of real wealth. It must be mentioned here that for Steuart (1.95) “it is the employment alone of the inhabitants which can impress” a state. Thus, “while a favourable balance.... is preserved upon foreign trade, a nation grows richer daily; and still prices remain regulated as before, by the complicated operation of demand and competition; and when one nation is growing richer, others must be growing poorer this is an example of a favourable balance of trade” (2.363).

He did not recognize the feedback effects of the income mechanism that fall upon a country that, for an extended period of time, maintains a favourable balance of trade. In other words, he did not acknowledge that if a country, through the favourable balance of trade, becomes more and more wealthy, while its trading partners become poorer and reduce their imports, the exports of the first country would be significantly reduced, thus causing the balance of trade to turn against it.

Steuart, in addition to his contribution to the field of foreign trade, introduced and analysed the notion of “the balance of payments”, as a different

expression of international economic relations. He noted that:

there is a great difference between the wrong balance of trade, and the general balance of payments. The first marks the total loss of the nations when her imports exceed the value of her exports; the second comprehends three other articles, viz.

1. the expense of the natives in foreign countries;
2. the payments of all debts, principal and interest, due to foreigners;
3. the lending of money to other nations.

These three put together, make what I call the general balance of foreign payments: and these added to the wrong balance of trade may be called the grand balance with the world (2.489-90)¹⁸.

For Steuart, the expansion of trade produced by the rise of foreign demand is a function of several variables, such as: an increase of per capita income in the imported country (1.233); changes in the consumer's preferences on behalf of foreign goods (2.364); and a change in the level of prices in favour of the exporter country (*Ibid.*). An increase of foreign demand would result in a favourable balance of trade that would have two main effects: (a) an increase of employment in the exporter country¹⁹; and (b) if "the supply do not increase in proportion to the demand, a competition will ensue among the demanders" which would increase the rate of prices in the exporter country and reduce its advantage (1.182)²⁰.

Steuart, having a non-strict mercantilist argument in favour of the benefits of foreign trade²¹, claimed that "it is not by the importation of foreign commodities, and by the exportation of gold and silver, that a nation become poor; it is by consuming these commodities when imported" (2. 359-60)²². In other

18. See also Viner (1937: 15), Yang (1994: 205). Cantillon had also recognised the balance of payments where he included expenses for "secret services and political aims, for subsidies to allies, for the upkeep of troops, ambassadors, noblemen who travel, etc., capital which the inhabitants of one state sent to another to invest in public or private funds" (1755: 263).

19. An argument in favour of the positive balance of trade in the mercantilist tradition (see e.g. Defoe 1728: 32).

20. Yang (1994: 148-152), based on such arguments, formed a simple model of economic growth through foreign trade that clarifies many of Steuart's ambiguities. Perrotta presented three different mercantilist "explanations" of the favourable balance of trade and regarded Steuart to be a follower of the theory based upon the "exchange of goods with different productive potentials" (1991: 320-1).

21. The economic thinkers of the 18th century also recognized some non-economic benefits produced by the increase of foreign trade. For example, Wallace (1758: 14-5) observed: "Foreign trade is like-wise an advantage in other respects. It opens an easy communication with all parts of the globe. It gives us the means of enlarging our knowledge of nature and of mankind, and of acquiring a share of the riches of every nation". Hirschman (1977: 70-87) shows how Montesquieu and Steuart argued for the political and cultural effects of foreign trade.

22. On the other hand, those accepting a relevant mercantilist explanation (see e.g. Mandeville 1714: 138, 141; Gee 1729: 116-7) believed that the most important result of the reduction of imports was the saving of precious metals.

words, for Steuart, any importation of commodities reflects the country's "opportunity cost" in terms of labour that could be employed in the production of these commodities.

Steuart, under his growth-decay thesis, argued that the fruits of foreign trade would be lost for the advancing country (Yang 1994: 130, 137). He investigated the following drastic endogenous (1st, 2nd) and exogenous (3rd, 4th) factors that decrease the absolute advantage of a country in foreign trade: "First, The consolidation of high profits with the real value of the manufacture.... Secondly, The rise in the price of articles of the first necessity... . Thirdly, The natural advantages of other countries... . Fourthly, The superior dexterity of other nations in working up their manufactures" and other productive capacities (1.246-7).

In regard to the first, as Steuart maintained (1.185), a mature and developed economy with a positive balance of trade would lose its absolute advantage in terms of relative costs and prices. This would occur when an increase of luxury consumption took place among the citizens of the exporter country. Such changes in consumption preferences would cause an increase in the rate of wages and of the real cost of production which, in turn, would increase the price of exportable goods²³. In such a case, the increase in the rate of prices would decrease the rate of exports. And, as there did not exist for Steuart any drastic endogenous mechanism for the restoration of the previous situation, the statesman, as we shall see in section 4, must intervene.

Steuart dismissed the old mercantilist doctrine that an increase in the rate of interest would produce a drastic increase in the rate of prices. He makes clear (2.467) that labour's productivity is the most significant factor for the regulation of the real value of commodity (see also Tortajada 1999: 244). And he emphasized that if the increase of labour productivity is higher than the increase of the rate of interest (which is a small part of the real value of commodity), then the real value of commodity could be reduced.

Such an argument against the increase of luxury consumption in the stage of foreign trade had already been developed by various thinkers of the mercantilist era. For example, Locke (1692: 163) turned against the importation of luxury goods. Gee (1729: 2) stated that "where foreign Materials are but Superfluities foreign Manufactures should be prohibited; for that will either banish the superfluity, or gain the Manufacture". Thus, "if the increase of our Luxury was equal to this in other Things, the Nation would be reduced to a miserable Condition" (*Ibid.*: 47). However, the economist who seems most to

23. As Steuart wrote:

"as a kind of general rule, that while luxury tends only to keep up demand to the reasonable proportion of the power and inclination in the industrious part of a people to supply it, then it is advantageous to any nation; and that so soon as it begins to make the scale of home-demand preponderate, by forming a competition among the natives, to consume what strangers seek for, then it is harmful, and has an evident tendency to rot our foreign trade" (2.357).

have influenced Steuart regarding his position against the importation of luxury goods in the phase of a mature foreign trade, was Harris who maintained that:

luxury ... so far as it encourages the arts, whets the inventions of men, and finds employments for more of our own people; its influence is benign, and beneficial to the whole society. But if luxury, or fashion, tend to discourage the arts and industry at home; to stock the nation too much with costly trifles from abroad, of no real use; or with consumable commodities, not really wanted; thereby transferring the employments from our own poor, to those of another nations; to nations it may be, not our friends; luxury then, degenerates into evil, and should be suppressed in time (1757: 28).

The second endogenous cause for the increase in the "intrinsic" value of commodities is produced by the unbalanced growth of agriculture and population. In the case where population increases faster than agriculture (1.252) – as agriculture functions under diminishing returns (1.197-8) – then the price of subsistence goods will be increased, thus producing a general rise of prices and the loss of absolute advantage in foreign trade

The above discussion demonstrates that Steuart had clearly incorporated into his analysis of foreign trade certain fundamental notions and mechanisms, such as: the existence of surplus as a basis for foreign trade, the principle of absolute advantage, the notion and function of the favourable balance of trade, and the notion of the balance of payments. Also, we see that for Steuart, the loss of a country's favourable balance of trade is the result of endogenous and exogenous causes that need a special statesman's intervention, as will be described in section 5.

4. Money and the balance of trade adjustments

Steuart emphasized the necessary existence of an invariable worldwide measure of value and medium of exchange. He proposed (2.572-3) the bullion standard as the world-coin for foreign exchanges and he regarded the determination of the rate of exchange, or "the par rate", between coins of different nations to be of paramount importance – ideas and arguments already put forward by Harris (1757: 37, 82-3). Steuart stressed that the exchange rate may be deduced by comparing, through specific measures, the content of coins in terms of "fine gold and silver" (2.578)²⁴. He did not fully accept the argument developed by Law (1705: 21) and Cantillon (1755: 259), that the rate of exchange is determined by the difference between exports and imports, namely, between the rate of "influx and outflux" of precious metals²⁵. Steuart

24. For such a reason, he wrote the treatise (see *Works*, vol. V) titled *Plan for Introducing an Uniformity of Weights and Measures over the World*. However, Harris (1757: 37-8) had already stressed the serious problems that accompany various measures of the value for bullion.

25. Cantillon (1755: 259, 261) clearly showed that a positive or negative balance of trade,

argued (2.547) that the price of bullion is determined through the devices that regulate any other price of commodities, that is, by the rate of supply and demand of bullion in the world market.

As was previously mentioned, Steuart revealed the positive balance of trade in real terms and especially in terms of net imports of raw materials and (if possible) of agricultural products. Thus, "when there is a balance due by any nation, upon the whole of their mercantile transactions with the rest of the world, such balance must be paid in coin" (2.489). This is the main reason for a country to demand precious metals, that is, in order to be used as a means for international payments (2.466). However, he was open-minded enough to recognize that the influx of precious metals, instead of foreign paper money, adds "to the intrinsic value of a country" [i.e. the Gross National Product in real terms] (2.490; see also Campbell 1953: 59-60).

In regard to the relationship between the wealth of the nation and the favourable balance of trade, Cantillon had already argued somewhat differently from Steuart. In a rather interesting statement, Cantillon maintained:

The Point which seems to determine the comparative greatness of States is their reserve Stock above the yearly consumption.... And as Gold and Silver always buy these things [i.e. consumable commodities], even from the Enemies and the State, and the larger or smaller actual quantity of this Stock necessarily determines the comparative greatness of Kingdoms and States. If it is the custom to draw Gold and Silver from abroad by exporting Merchandises and Produce of the State, such as Corn, Wine, Wool, etc. this will not fail to enrich the State at cost of a decrease of the Population; but if Gold and Silver be attracted from abroad in exchange for the Labour of the People, such as Manufactures and articles which contain little of the produce of the soil, this will enrich the State in a useful and essential manner (1755: 89-91; brackets added).

From the above rather lengthy quotation, the following ideas of Cantillon can be derived: (a) the net wealth of a nation is equal to the positive difference between the yearly production and consumption; (b) this wealth is represented by a relative volume of precious metals which may be increased through a favourable balance of trade; and (c) such a favourable balance of trade is more beneficial to a country when her exports contain labour-intensive goods. Cantillon and Steuart tended to agree on this last idea, while Cantillon's second argument resembles the relevant mercantilist doctrine that "wealth equals to precious metals"²⁶ and distinguishes him from Steuart. It is

results from an alteration of the exchange rate between the traded countries. He argued that if a country has a positive balance of trade with the rest of the world [i.e. the "general balance" as he called it (*Ibid.*: 261)], then the price of bullion in that country is reduced – as its influx has been increased – compared with its cost of production, and vice versa. Thus, when a country's price of bullion is higher than its cost of production, it can be deduced that that country has a negative balance of trade, and vice versa.

26. Heckscher commented that as the mercantilists believed "that consumption in itself was of no value they came by easy stripes to the conclusion that only an excess of income over

with respect to the first concept, namely that a nation's net wealth is equal to the positive difference between yearly production and consumption, that the two tend to partly disagree. While they both define surplus in the same way (Cantillon, *Ibid.*, Steuart 2. 678), Steuart measures surplus in terms of precious metals²⁷.

Steuart (2. 582-3) shared the mercantilist doctrine that the statesman must intervene in order to prevent the exportation of precious metals, in cases where the country has a long-run negative balance of trade. Such a mercantilist policy suggestion was more strongly proposed by Cantillon (1755: 183-5), while Hume ("Of the Balance of Trade", ed. 1970: 77) turned against such intervention in behalf of free trade, justified on the grounds of the "price-specie-flow mechanism"²⁸. As is known, Hume argued that precious metals would be distributed in various traded countries in "proportional level to the commodities, labour, industry, and skill, which is in the several state" (*Ibid.*: 66, ft; see also *Ibid.*: 64)²⁹. Under such a mechanism, there does not exist any long-run positive (or negative) balance of trade for any one country, as some mercantilists had claimed, to serve as a source of wealth (see also Bloomfield 1938: 719; Duke 1979: 573).

This mechanism was widely known and discussed in the mid- 18th century; it had been accepted by some authors and criticized by others. For example, Cantillon (1755: 135, 159, 167-9)³⁰, Patrick (1755: 69) and the early Smith (1763)³¹ accepted the function and importance of such a mechanism. Harris (1757: 67-71, 88) and Wallace (1758: 8, 13-4) turned against it, while only a

expenditure increased the riches of a country and that such an excess could consist only in an inflow of precious metals from abroad" (1957: 336).

27. As Groenewegen (1999) has shown, Cantillon's economic ideas were indirectly transmitted to Steuart.

28. Hume had first described such a mechanism in a letter to Montesquieu in April 10, 1749 (Fausten 1979: 664) who implicitly accepted this mechanism (see Devletoglou 1963: 17). For a detailed analysis of Hume's thesis in behalf of free trade in relation to his thoughts on the effects of technological change and the specie-flow mechanism, see Berdell (1996).

29. As Hume explained ("Of the Balance of Trade", ed. 1970: 63), if an amount of coin-money "be annihilated in one night" from a country, then "the price of all labour and commodities sink in proportion, and everything be sold as cheap as they were", thus the advantage of that country in terms of price level is increased and its exports would be augmented. He used such a mechanism to argue against the substitution of coin with paper money ("Of Public Credit", ed. 1970: 95-6,ft). For a modern explanation of this mechanism, see Staley (1976: 252-3); Duke (1979: 572, ft1); Fausten (1979: 663, ft 1).

30. Cantillon (1755: 235) explained the growth-decay thesis in foreign trade through the function of the specie-flow mechanism and the gradual deterioration of the balance of trade against the country that had, for an extended period of time, a positive balance of trade.

31. Adam Smith had accepted the function of the Humean specie-flow mechanism early in his *Lectures* (1763), but he did not ever mention it in his magnum opus *Wealth of Nations* (1776). Such a "mystery of the history of economic thought", as Viner (1937: 87) characterized it, has recently been explained under some specific "hypothesis" by Petrella (1968).

few members of the Physiocrats discussed it (Bloomfield 1938: 726). However, the most scientific and analytical critique against the Humean specie-flow mechanism was formulated by Steuart (2.358, 362)³².

Steuart's critique of the specie-flow mechanism is, firstly, an extension of his critique against the Humean quantity theory of money (2.342-5, 349-50) and, secondarily, is based upon his theory of the stages of trade (Skinner 1985: 16). Let us discuss in more detail his objections to the Humean arguments explaining the specie-flow mechanism.

First, Steuart observed (2.360) that experience does not verify that a country that has lost a large amount of precious metals, becomes poorer and her imports have been reduced. His objection was based upon two grounds: (a) the imports of a country are rather a function of her balance of payments – which Steuart conceived to be a monetary rather than a real phenomenon (Fausten 1979: 657,660) – and not a function of the balance of trade (2.491); and (b) there is a possibility of foreign borrowing which could close the gap of the balance of trade, at least temporarily, as Steuart (2. 515-6) was averse to any kind of dependence on foreigners which could result in a form of subordination³³.

Second, Steuart's opposition to the specie-flow mechanism was based upon his critique of Humean theory regarding the proportional increase of money in circulation and the price level (i.e. the pure quantity theory of money). For Steuart (2.362), such proportionality might not hold as there would always exist the possibility of a country's hoarding part of the increased quantity of money. Relative to this, he noted that "when a favourable balance pours in a superfluity of coin, which at the same time cuts off the demands of trade for sending it abroad, it frequently falls into coffers; where it becomes as useless as if it were in the mine; and this clumsy circulation, as I may call it, prevents coin from coming into the hands of those who would have occasion for it, did they but know where to come at it" (2.489). This may be happen because "it is the wealth only which is found in circulation, which can change its balance; the remainder must be found locked up, made into plate, or employed in foreign trade" (2.356).

Nevertheless, Hume was well aware of the hoarding problem. In a letter to J. Oswald (1st November, 1750; ed. 1932: 143), he wrote: "I agree with you, that the increase of money, if not too sudden, naturally increases people and industry, and by that means may retain; but if it do not produce such an increase, nothing will retain it except hoarding" (ed. 1932: 143)³⁴. It seems

32. See also Angell (1925: 30); Viner (1937: 86); Campbell (1953: 73-4); Skinner (1985: 16); Eltis (1986: 49-50); Doujon (1994: 515).

33. Cantillon (1755: 171, 193) had analytically distinguished between these two measures of a state's economic situation in foreign trade, and warned against the borrowing from foreigners.

34. See also Hicks (1967: 161). Duke (1979: 578) formed a model analysing Hume's monetary adjustments in foreign trade.

here that Hume developed an argument shared also by Steuart (2.344), that a gradual increase in the volume of money, especially in an underdeveloped country, would increase its real economic magnitudes.

Third, Steuart criticized the Humean specie-flow mechanism on the ground that there was a possibility that a part of the imported new precious metals would be transferred as capital invested to other countries (Viner 1937: 16, ft 4; Schumpeter 1954: 350). His relevant critique is based upon the importance he gave to the balance of payments rather than the balance of trade as the most important magnitude in foreign trade – a decidedly modern approach (see e.g. Haberler 1961: 30-1). As Steuart mentioned:

While there is found a sufficient quantity of money for carrying on reciprocal alienations; those money gatherers will not be able to employ their stagnated wealth within the nation; but so soon as this gathering has had the effect of diminishing the specie, below the proportion found necessary to carry on the circulation, it will begin to be lent out, and so it will return to circulate for a time (2.362). All nations will endeavour to throw their ready money, not necessary for their own circulation, into that country where the interest of money is high with respect to their own (2.367).

On the contrary, nobody is going to lend or invest in a country that is not “paying away the interest of the money borrowed, and ... [has] a heavy balance of trade against her” (2. 367; brackets added). In other words, for Steuart – a truly pioneering economist in the theory of international capital transfers – investment abroad would be a function of: (a) the intra-nations’ comparative rate of interest; and (b) the economic conditions and trustfulness of each nation.

The above arguments of Steuart against the Humean specie-flow mechanism are correct in so far as Hume had not taken notice of the role of *ceteris paribus* assumptions. However, as happened in the case of the Humean quantity of money, and specifically in this case of the specie-flow mechanism, Hume had modeled such mechanisms under the *ceteris paribus* assumptions (see Hont 1983: 296; Karayiannis 1988a). Although, to some extent, these critiques of Steuart against the specie-flow mechanism may be due to a misunderstanding, he emphasized another argument that may be of greater importance. Namely, he argued that there is no justification to explain why a country that has a long-lived favourable balance of trade would wait until the emergence of the negative effects described by Hume. As Steuart noticed: “it is the interest of a rich nation, to cut off the communications of hurtful trade, by such impediments as restrictions, duties, and prohibitions, upon importation; in order that, as by dykes, its wealth may be kept above the level of the surrounding element” (2.364). An argument in line with mercantilist protectionism and a solution that Steuart suggested only as a last resort.

From the above, it may be deduced that Steuart was against the Humean specie-flow mechanism, mainly because he had not found enough logical veri-

fication and empirical justification that under free trade, as Hume argued³⁵, "wealth will naturally come to a balance, in all countries" (2.363).

Nonetheless, Steuart recognized some drastic real and monetary effects produced by an increased volume of precious metals. He regarded (2. 497-8) that either of the following two effects would take place after the increased importation of precious metals (coins): (a) the volume of money in circulation inside the country would increase and, if the economy produced at a non-full employment level, the rate of production and employment would be augmented; or (b) the rate of wealth of individuals would be increased by a readjustment of "melted down properties" and this would, in turn, increase the rate of interest – a purely monetary phenomenon for Steuart (see Karayiannis 1988b)³⁶.

5. Foreign trade and economic policy

From the previous analysis, we may conclude that Steuart was in favour of free trade when all participating countries had reached an equal degree of economic development (see also, Davie 1967: 295), and when "industry and frugality were found to prevail equally in every country" (Johnson 1937: 231). All other cases, for Steuart, would necessitate intervention by the statesman, because "laying ... trade quite open would have this effect; it would destroy, at first at least, all the luxurious arts; consequently, it would diminish consumption; consequently, it would promote hoarding; and consequently, would bring on poverty in all the states of Europe" (2.365). He claimed (*Ibid.*) that an absolute free trade for countries with different economic conditions may be beneficial to all only when there existed a "general government" imposing specific economic norms for all³⁷. However, such freedom may be regulated somewhat by the statesman intervention, namely "although the nature and the prosperity of trade require freedom on all hands; still this freedom is not incompatible with ... regulation" (Steuart 1772: 92).

During the mid-18th century, two different concepts regarding free and regulated international trade were developed. Montesquieu, for example, was an advocate of free trade (Devletoglou 1963: 15-6). The same line of thinking was followed by Hume ("Of the Balance of Trade", ed. 1970: 75-6). Similarly,

35. In Hume's words: "The money always finds its way back again, by a hundred canals, of which we have no notion or suspicion" ("Of The Balance of Trade", ed. 1970: 77; see also "Of the Jealousy of Trade", ed. 1970: 78, 81).

36. Yang (1994: 211-216) formed a model based upon Steuart's specific arguments on the relationship between the balance of payments and the level of prices and output.

37. Such an idea was later developed by F. List who emphasized that "only with the gradual formation of this union [i.e. a universal republic] can free trade be developed, only as a result of this union can it confer on all nations the same great advantages" (1841-4: 127; brackets added).

the early Smith enumerated the following obstacles to foreign trade as detrimental to economic development: (i) "the imperfection of the law with regard to contrast" (1763: 233); (ii) "the difficulty of conveyance from one place to another" (*Ibid.*: 234); and (iii) "all taxes upon exportation and importation of goods also hinder commerce All monopolies and exclusive privileges of corporations ... have the same bad effect" (*Ibid.*: 236).

On the other hand, Steuart believed that there must be some regulation regarding foreign trade by the statesman, who "must act, as well as permit and protect" (2.365). Although his approach has been called by Sen (1957) an "economics of control", it may better be characterized mainly as an "economics of direction and stimulation" and, if such policies proved inadequate, as an "economics of prohibition and permission" (Karayiannis 1994: 42). As Steuart relevantly noted:

Trade, therefore, and foreign communications, form a new kind of a society among nations; and consequently render the occupation of statesman more complex. He must, as before, be attentive to provide food, other necessities and employment for all his people; but as the foreign connections make these very circumstances depend upon the entertaining a good correspondence with neighbouring nations, he must acquire a proper knowledge of their domestic situation, so as to reconcile, as much as may be, the interests of both parties, by engaging the strangers to furnish articles of the first necessity, when the precious metals cannot be procured; and to accept, in return, the most consumable superfluities which industry can invent. And, last of all, he must inspire his own people with a spirit of emulation in the exercise of frugality, temperance, oeconomy, and an application to labour and ingenuity (1.231).

Let us now analyse the later characterizations of Steuart's economic policy suggestions in the field of international trade (see also Karayiannis 1994).

Steuart (1.302, 345) held that a country could re-establish a favourable foreign trade only if it could "suffer" a temporary decline in the living standard without any reduction in its productivity while, at the same time, the consumption pattern of other countries was becoming more luxurious. For Steuart, as well as for Hume³⁸, the stage of foreign trade is temporarily maintained in the overall evolution of society. This process is a natural one and is attributed to the specific interrelationship of economic variables.

In those cases where the statesman must help the economy to obtain a favourable balance of trade, Steuart endows him with the opportunity for many energetic and complicated interventions (1.262; see also Kobayashi 1992: 61-63)³⁹.

38. Hume, by emphasizing the various advantages of foreign trade to an exported country, questioned "whether these advantages can go on, increasing trade in infinitum, or whether they do not at last come to a net plus ultra, and check themselves, by begetting disadvantages, which at first retard, and at last finally stop their progress" (*Letter to Lord Kames*, 4th March, 1758, ed. 1932: 271).

39. Khalil (1987: 121) rightly comments that "Steuart introduces the concept of the spirit

In justifying the intervention of the statesman in helping an underdeveloped country to gain an absolute advantage in foreign trade, Steuart developed the infant industry argument⁴⁰. He rationalized this argument because of the small profits at the beginning of some branches of production that discourage its development (1.204). Thus, he stated that the statesman must permit a short-run, higher-than-normal rate of profit in the infant and protected branches of industry in order to gain dexterity and knowledge in this kind of production (1.106, 199, 236, 240, 262). In order for those profits to be gained by the protected branches of industry, the statesman must prohibit, or place duties on, the importation of such commodities produced at lower prices abroad (1.262)⁴¹. He explained that it might be necessary "to allow such commodities to be imported, with a duty which may raise their price to so just a height as neither to suffer them to be sold so cheap as to discourage the domestic fabrication, nor so dear, as to raise the profits of manufactures above a reasonable standard, in case of an augmentation of demand" (1.285). Nevertheless, he recognized that this kind of protection must not continue for any extended length of time. On the contrary, the statesman "must keep constantly an eye upon the profits made in every branch of industry; and so soon as he finds that the real value of the manufacture comes so low as to render it exportable, he must ... put an end to these profits he had permitted as the means only of bringing the manufactures to its perfection" (1.263)⁴².

When a country has an absolute advantage in certain manufactured goods, the statesman must do what he can in order to sustain such an advantage. The statesman's "ruling principles" are "to banish luxury; to encourage frugality; to fix the lowest standard of prices possible; and to watch, with the greatest attention, over the vibrations of the balance between work and demand" (1.263). Moreover, he must encourage the exportation of manufactured goods (labour-intensive goods) and the importation of raw produce (1.291).

As was noticed in section 3, four factors cause the stage of decay in foreign trade to emerge, that is, where an absolute advantage is lost. The main factor was a result of the increased per capita income and the increased level of luxury consumption that would increase the real value of commodi-

of the people as a constraint which the statesman has to attend to in the implementation of his plan".

40. See also Hutchison (1988: 349). Some hints on behalf of the infant-industry argument are found in Gee (1729: 79) who thought "it worthy the Care of the Government, to endeavour by all possible Means to encourage them [i.e. manufacturers]. ... By giving them competent Bounties in the Beginning".

41. Hume had already recognized the protectionist character of tariffs noticing: "A tax on German linen encourages home manufactures, and thereby multiplies our people and industry. A tax on brandy encreases the sale of rum, and supports our southern colonies" ("On the Balance of Trade", ed. 1970: 76).

42. Steuart (1. 241, 257, 299) also stressed that the statesman is able to support and encourage some branches of production by subsidizing and giving premiums.

ties (1.239-40, 286). Steuart suggested two policies to prevent the emergence of such a deleterious situation.

The first is that the statesman (2.298) by his example, and not by drastic measures, has to change the consumption pattern of individuals. Steuart was averse to any sudden and direct consumption prohibitions by the statesman (see also, Ohmori 1983: 190), because, as he stated:

It will prove very discouraging to any statesman to attempt a sudden reform of this abuse of consolidated profits, and to attack the luxury of his own people. The best way therefore is to prevent matters from coming to such a pass, as to demand so dangerous and difficult a remedy (1.251).

The second is attained (1.236) through indirect measures by which the statesman seeks to prevent the "consolidation" of higher wages into the real value of goods⁴³. One such indirect measure is through the adoption of a proper taxation policy. Such a policy would increase the tax rates of luxury goods in order to discourage their consumption by the labourer (2.637, 652, 679, 711)⁴⁴. Another measure would be to reinforce the competition within the economy by "reducing consolidated profits ... upon articles of exportation", the effect being "to increase the number of hands employed in supplying them" (1.250). In other words, the statesman, by encouraging competition in his economy, would prevent the consolidation of above-normal rate of wages and profits in the real cost of production⁴⁵.

In the second endogenous cause of the weakness in a favourable balance of trade, namely when the price of subsistence goods is increased, according to Steuart, the statesman must encourage the importation of subsistence goods (1.198), or assist "agriculture with his purse" (1.200)⁴⁶. Indeed, "These appear to be the most rational temporary expedients to diminish the price of grain in years of scarcity" (1.255). The statesman may also exercise some regulatory activities in order to "keep the prices of grain in as just a proportion as possible to the plenty of the year" (1.254). Steuart also mentioned that placing premiums upon exportation is a good measure for the decrease of the agricultural surplus "when prices fall too low" (1.233).

43. Steuart's theory of value is analysed in Karayiannis (1991).

44. Many authors of the mid-18th century argued on behalf of taxes on luxury goods, as Hume ("Of Taxes", ed. 1970: 85), Richardson (1744: 149, 169, 179), etc.

45. Cantillon suggested another strategy for the prevention of a favourable balance of trade, that of withdrawing money from circulation. As he noticed: "Thus it would seem that when a state expands by trade and the abundance of money raises the price of land and labour, the Prince or the Legislator ought to withdraw money from circulation, keep it for emergencies, and try to retard its circulation by every means except compulsion and bad faith, so as to forestall the too great dearness of its articles and prevent the drawbacks of luxury" (1755: 185).

46. Steuart proposed also the establishment of a granary scheme by which the real wage rate and the level of production of grain would be secured (Campbell 1953: 50-1; Skinner 1985: 12; Eltis 1986: 56).

When a country has lost its absolute advantage because of an unavoidable decline, Steuart (2.637, 700) called upon the statesman to intervene with policies scheduled according to the relative circumstances that prevail in any economy. However, he warned that the statesman's intervention and his remedies for the re-establishment of foreign trade are "difficult, and sometimes dangerous" (1.259); thus, he suggested that the statesman must do what he can to "preserve" a beneficial balance of trade (1.260)⁴⁷. Further discussion elaborated upon the other two exogenous causes for the loss of a favourable balance of trade. "Against the first cause of decline," Steuart observed, "I see no better remedy than patience ... and a perseverance in frugality and economy, until the unwary beginners shall fall into the inconveniences generally attending upon wealth and ease" (1.243). "The second cause of decline it is far more difficult to remove... . But even for this great evil, the very nature of man points out a remedy. It is the business of the statesman to lay hold of it" (*Ibid.*). More specifically, the statesman must encourage exportation – when the country is competing in foreign trade with more advanced countries – even by giving premiums (1.258).

When a country has already lost its absolute advantage in foreign trade by trading with a superior country, the statesman can intervene by introducing the following three measures:

First, To renounce this branch of commerce entirely, and to take the commodities wanted from foreigners, as they can furnish them cheaper. Secondly, To prohibit the importation of such commodities altogether. Thirdly, To impose a duty upon importation, in order to raise the price of them so high as to make them dearer than the same kind of commodity produced at home (1.284).

Steuart disputed the second measure because he considered it to be "too violent a remedy ever to be applied with success" (1.290). Instead of that, the statesman must impose duties on the importation of goods that will be gradually augmented (1.292). What then will be the optimum rate of duties imposed on importations? Steuart argues that this rate must be such as "to allow such commodities to be imported, with a duty which may raise their price to so just a height as neither to suffer them to be sold so cheap as to discourage the domestic fabrication, nor so dear, as to raise the profits of manufactures above a reasonable standard, in case of an augmentation of demand" (1.285).

Steuart (1.291) turned against the sudden prohibition of imported goods because it would increase the price of those goods in domestic industry. Thus, he suggested that the statesman first did what he could by examining the causes and the remedies for regaining a profitable foreign trade and not to eliminate such trade altogether (1.293). However, Steuart was well aware that inter-

47. For the policies suggested by Steuart for dealing with disequilibrium in the balance of payments and capital mobility, see Perlman (1990).

national trade would stagnate if the same policies on foreign trade were followed by all countries (1.296)⁴⁸.

The establishment of free trade, according to Steuart (1.296), can prove beneficial to the trading countries only if they have the same level of development and if individuals share the same consumption preferences.

He was not a supporter of unrestricted and unregulated foreign trade, particularly when a country was in the stage of "decay"⁴⁹. However, he did not suggest direct prohibitions to exports and imports as the most effective economic policy in foreign trade – a view also shared by Hume and Smith⁵⁰. If we have to characterize Steuart's approach to international economics, it is better to say that he did not analyse the function of a "cosmopolitical economy" – to use the term of List (1841-44: 119) – a concept which was followed by Hume and Smith. Steuart worked rather upon an international economic policy that, as List (*Ibid.*: 120) later on describes, "each separate nation had to obey in order to make progress in its economical conditions".

The above policy suggestion of Steuart regarding international trade generated some rather harsh critiques by later commentators. For example, J. S. Mill commented that "according to Sir James system by which nothing is to be left to itself, but everything done by regulation, the corn trade must be put under management... The author it is evident, had never reflected with any accuracy upon the operation of free trade and therefore sees not the equalizing results which it is calculated to produce" (ed. 1966: 83). In this statement, J. S. Mill is not far from the truth. Steuart, in his essay *Considerations on the Interest of the Country of Lanark in Scotland* (1769: 339-345), had tried to influence the citizens of Glasgow in favour of a protectionist policy of corn trade (see also Rae 1895: 61; Taylor 1957: 301; Augier and Théré 1999). J. S. Mill, however, in his magnum opus *Principles of Political Economy*, did not correctly criticize Steuart for not having recognized the operation of free trade. We must not forget that Steuart was a creature of his time, in which the doctrine of free trade was not widely accepted and that, in the mid-18th century, as Meek aptly observes (1958: 292), "economics ... usually rested on the assumption that an economy could not possibly work if left to itself".

48. For a modern explanation of such an effect, see Robinson (1947: 229).

49. Steuart titled his chapter XXIII: "When a Nation, which has enriched herself by a reciprocal Commerce in Manufactures with other Nations, finds the Balance of Trade turn against her, it is her Interest to put a stop to it altogether".

50. Hume argued, ("Of Balance of Trade", ed. 1970: 60), that by the prohibition of exports, the nations "act directly contrary to their intention; and that the more is exported of any commodity, the more will be raised at home". Similarly, Smith (1763: 205) declared that "by prohibiting the exportation of goods to foreign markets, the industry of the country is greatly discouraged".

6. Was Steuart's policy mercantilist?

From the previous analysis, we have seen that in some cases Steuart adopted mercantilist arguments and theses, while in other instances he was averse to such arguments. Let us see, according to some rather well circulated comments on this issue, just how far Steuart's policy on foreign trade was in accordance with fundamental mercantilist doctrines.

A recent well-known comment is that of Anderson and Tollison (1984) who stressed that Steuart's policy suggestions regarding international trade were mercantilist – an old characterization from the time of Cunningham (1891: 86)⁵¹. Such an opinion is strengthened if the conclusion of Schmoller is accepted that mercantilism was developed under "the struggle for self-sufficiency and independence ... [Thus] it was the law of autarky by which the commercial policy of those times was exclusively guided" (1884: 62, brackets added). This opinion may also be accepted if Dobb's (1925: 265) characterization of mercantilism as "a policy of the balance of trade" is adopted. Similarly, it holds if one accepts Keynes' comment that "the mercantilists were under no illusions as to the nationalistic character of their policies... It was national advantage and relative strength at which they were admittedly aiming" (1936: 348). The "mercantilist" label also fits well if one adopts Johnson's characterization (1974: 5) that "mercantilist trade policies can be successful in increasing employment, ... because they draw in the money required to support a higher level of domestic activity"⁵².

On the other hand, if certain other characterizations of mercantilism are accepted, one's perspective changes. For example, Heckscher (1957: 335) concluded that mercantilism meant "that interference should aim at changing causes and not effects, that it was useless to punish unavoidable results without removing their causes." However, as we have seen, Steuart focused his economic policy concerning international trade mainly on effect, rather than cause. Moreover, Heckscher (1957: 336) claimed that "mercantilist statesmen and writers saw in the subjects of the state means to an end, and the end was the power of the state itself". On the contrary, for Steuart, the main scope of a statesman's action was toward the increased welfare of the people. He stressed that "we have taken for granted the fundamental maxim, that every operation of government should be calculated for the good of the people" (1.21; see also 1. 88, 142-3).

Similarly, J. M. Keynes (1936: 336) commented that mercantilists adopted the "favourable balance of trade on the influx of the precious metals" because it "was their only indirect means of reducing the domestic rate of interest and so increasing the inducement to home investment". If the "trademark" of mercantilism resided in such a proposition, then Steuart was definitely not a mercantilist. On the one hand, he did not conceive that the favourable balance of

51. The conclusions of Anderson and Tollison (1984), criticized by Rashid (1986).

52. A comment also shared by Judges (1939: 56-7).

trade was explained by the "influx of the precious metals"; and, on the other, he entrusted the regulation of the rate of interest to the statesman and the appropriate economic policy (see Karayiannis 1988b; 1994).

However, the majority of commentators have characterized Steuart's ideas on international economics as quasi-mercantilist; something which I also share and is rather closer to the previously analysed positive and normative thesis of Steuart. Sewall (1901: 113-4), for example, regarded that Steuart "has been called a moderate mercantilist, and this title best describes him". Marshall (1919: 744, ft 1) commented that Steuart's economic thought "is mainly a mixture of fresh, shrewd individual observations with crude remains of old Mercantile fallacies." Skinner (1963: 439) considers that Steuart's analysis may "incidentally throw some doubt on his title" as a mercantilist. In similar fashion, Brewer (1997: 13) depicted Steuart "as a protectionist or, at least, as a less-than-reliable opponent of mercantilist policies," while Spiegel (1971: 215) considered Steuart to be closer to German Cameralism than to British liberalism.

7. Conclusion

By applying a scientific approach to his investigations – namely, by proceeding from simpler to more complex issues and by using both inductive and deductive reasoning (Karayiannis 1992; Kobayashi 1999) – Steuart was able to incorporate into his analysis of international trade more specific economic principles and notions, such as: the existence of surplus as a basis for foreign trade, the principle of absolute advantage, the notion and function of the favourable balance of trade, and the notion of the balance of payments. He also analysed specific endogenous and exogenous causes for the loss of a country's favourable balance of trade and advanced a theory of international capital transfer for investment purposes. Then, by adopting normative analysis, he proceeded to investigate and suggest policy measures for the sustenance and/or regaining of a favourable balance of trade. Within such an analysis, he offered an economic program that aimed at the development of an underdeveloped country. He was primarily interested in showing how an underdeveloped country, by its own power, could establish and increase its manufacturing production, not by placing prohibitions on imports, but by encouraging, through the statesman's intervention, the advance of manufacture.

Thus, having rather strenuously examined Steuart's ideas, we may conclude that his economic theories should not be rigidly characterized as mercantilist. He was rather a "believer" in the managed market and developed ideas concerning "economics of direction and stimulation," but when the conditions of the economy still proved unfavorable, only then was he in favor of the "economics of prevention and control".

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